CapXon

CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED

凱普松國際電子有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 469

# INTERIM REPORT 2018

# Contents



# Corporate Information

## Board of Directors

### Executive Directors
Mr. LIN Chin Tsun
*(Chairman and President)*
Ms. CHOU Chiu Yueh *(Vice President)*
Mr. LIN Yuan Yu *(Chief Executive Officer)*
Ms. LIN I Chu

### Non-Executive Director
Ms. LIU Fang Chun

### Independent Non-Executive Directors
Mr. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

## Audit Committee
Mr. LU Hong Te *(Chairman)*
Mr. HSIEH King-Hu, Miles
Mr. TUNG Chin Chuan

## Nomination Committee
Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

## Remuneration Committee
Mr. LU Hong Te *(Chairman)*
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
Mr. TUNG Chin Chuan

## Chief Financial Officer
Ms. HU Szu Jung, Carol

## Company Secretary
Ms. CHAN Yin Fung

## Auditor
Deloitte Touche Tohmatsu
Level 35 One Pacific Place
88 Queensway
Hong Kong

## Legal Adviser
MinterEllison LLP
Level 25 One Pacific Place
88 Queensway
Hong Kong

## Principal Bankers
Agricultural Bank of China Limited
Bank of Ningbo
First Commercial Bank
Hua Nan Commercial Bank
Mega International Commercial Bank
Co., Ltd.
Ping An Bank Co., Ltd.
Taiwan Cooperative Bank

## Registered Office

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

## Liaison Office in Taipei

5th Floor
No. 165, Sec. 2, Datong Road
Xizhi District
New Taipei City
Taiwan

## Head Office and Principal Place of Business in Hong Kong

Room 1303, 13th Floor
OfficePlus@Wan Chai
No. 303 Hennessy Road
Wanchai
Hong Kong

## Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

## Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## Investor Relations

### Taiwan

| | | |
|---|---|---|
| Telephone | : | (886)(2)8692 6611 Ext.41 |
| Fax | : | (886)(2)8692 6477 |

### Hong Kong

| | | |
|---|---|---|
| Telephone | : | (852)2598 1308 |
| Fax | : | (852)2598 1808 |

## Website

www.capxongroup.com

## Stock Code

469

# Chairman's Statement

Dear Shareholders,

How will the global economy evolve in 2018? The Organization for Economic Co-operation and Development is of the view that benefiting from trade and investment growth, it is expected that the global economy will increase by 3.9% in both 2018 and 2019. Such increase is mainly attributable to the largest tax reform in the US for the past three decades, with tax cuts to propel the US economic growth. Under the US tax reform, personal and corporate taxes will be significantly reduced to directly stimulate the economy and improve the business environment of the US. Nevertheless, the future flow of the colossal sum of US capital held overseas may play a dominant role in affecting the strength of the US dollar. There may also be a shift in the balance of the global market. As to how to respond to such changes in the future, the following situations may occur:

1. The European Central Bank may opt to withdraw from quantitative easing;

2. Liquidity will be tightened by the US Federal Reserve's move to raise interest rates;

3. Inflation will be escalated due to the greater market demand under stable global sentiment and the possible increase in oil price; and

4. The financial asset bubble may burst due to the sudden disappearance of liquidity under interest rate hikes and monetary tightening policies.

In the meantime, one has to take into account the larger adjustments caused by geopolitical events. Should overseas USD capital flow back to homeland and the US dollar regain its strong position, the emerging markets may take an unexpected hit which may lead to slower market growth.

In general, although major financial institutions tend to hold upbeat assessments about the global economy, inflation would re-emerge once central banks successively terminate their quantitative easing policies. This may occur as the world is experiencing its longest cycle of economic expansion in the post-world war era, owing to ample liquidity, the election of Trump as the US President, the convening of the 19th National Congress of the Communist Party of China, no black swan events in European politics, as well as the recovering confidence among corporate investors. These conditions, however, might reverse in the second half of 2018.

From an industry perspective, passive components will grow at a slower pace in the coming years, which is mainly attributable to:

1. A blooming automotive market;

2. Japan's exit from the entry-level market;

3. Demand for the application of the Internet of Things ("IoT") applications and communication modules; and

4. No appearance of a "Killer Product".

As most passive components are in a relatively mature stage of their product lifecycle, there is a relatively high correlation between industry fluctuation and general economic cycle. Besides, passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meters, 4G LTE base stations, LED street lamps, safety control systems, industrial control and renewable energy equipment, and therefore serve as a stable anchor for the supply and production values of key electronic parts and components. In comparison, non-3C applications belong to the niche market, which is characterized by low production volume and high unit price, and the supply and demand of such end products are less susceptible to fluctuations of economic cycles. Passive component suppliers who are entering into these sectors are developing miniaturized and modularized products and are adjusting their product portfolio in order to not only boost their gross profits, but also to avoid the operational risks arising from fluctuations of economic cycles. The future of passive components is expected to look towards developing features such as high capacity, high voltage, high frequency, high resistance to heat, and miniaturization. Increasing demand for end consumer products has led to the growing demand for mobile phones, PCs and niche products such as those for industrial and automotive purposes as well as the IoT. Nonetheless, there may be a short supply of aluminum foils due to more stringent environmental inspections in Mainland China, the global manufacturing hub. On the occasion of the China-US Trade war, it will be necessary to monitor global market changes with care and caution.

In response to the ever-changing market demands, Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively the "Group") will, on one hand, proactively cater to the product demands of existing customers and offer better services, and on the other hand, actively solicit new customers, enhance its product functions and added value through its research & development ("R&D") capability, and control costs to increase gross profit, in order to adequately satisfy customers' demands, and to reward shareholders with returns.

In the first half of 2018, the strategies for the Group's two major products were as follows:

## 1. Operations in the Aluminum Foil Market

Overall, the year 2018 witnessed moderate economic growth. Increasingly strict environmental regulations caused a continuous shortfall and higher production cost of aluminum foil, the major raw material of passive components. Meanwhile, the majority of production capacity was still dominated by large-scale capacitor manufacturers. In particular, manufacturers were vying for materials of ultra-high voltage series used in the photovoltaic industry, owing to a surge in demand and untimely delivery due to a high threshold of technology and process. In response to such industrial characteristics and current market conditions, the Group assessed the market dynamics and considered future potential supply, which led to its addition of new production lines and reduction of wastage to stabilize the current market demand among customers. Aluminum foils are the major raw materials of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. In addition, the Group is also actively exploring the development potential of markets with high added value to prepare for future market changes. The Group will remain attentive to and address the future changes in the aluminum foils market with care.

Currently, the Group has completed the following key R&D projects and quality control techniques of aluminum foils:

- *High-speed production line for etched aluminum foils*
  Multi-level electrolytic etching has been adopted to develop a high-speed production line for etched aluminum foils. Further improvement has been made in relation to adjusting equipment and technology indicators, product quality and production stability.

- *Acid recycling and reuse*
  In respect of the etching business, sulphuric and nitric acid recycling equipment has been installed to recycle the used sulphuric and nitric acid overflown during the etching production process. This has effectively reduced acid consumption and sewage treatment during production.

During the first half of 2018, the Group delivered the following environmental improvements in the production of aluminum foils:

- The energy-saving transformation for roasting furnaces has been completed, saving approximately 400kwh per production line on a daily basis;

- The plan for recycling reclaimed water has been confirmed and is expected to be put into practice in September 2018, which is estimated to save 300 tons of water per day; and

- To relieve pressure in sewage treatment, the Group has worked with third parties on phosphoric acid recycling and reuse, which is expected to save approximately 10% cost on phosphoric acid.

## 2. Operations in the Electrolytic Capacitor Market

The appearance of 5G network is not far away from us, while the arrival of the IoT is the "Next Big Event". A revolution in speed has long gathered its momentum, with higher transmission speed and fewer errors as the key to future application industries. Therefore, this year, the R&D for mass production of electrolytic capacitors primarily aims at high-end products, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications, with great results already achieved for relevant products. In the future, the Group will commit more efforts to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high and ultra-high voltage, high frequency and temperature. The Group will also take steps to develop custom-made products that cater to the front-end demand of the market and can be applied across different sectors, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

Currently, the Group has completed the following key R&D projects of electrolytic capacitors:

- The Group has passed the interim inspection and acceptance of its R&D and industrialization of electrolytic capacitors with a ultra-long service life, a project under the "Special Projects for Integrating Innovation and Industry Chains – Industry Innovation and Development of a New Generation of Efficient Smart Power Systems" (創新鏈+產業鏈融合專項－新一代高效智慧電源系統產業創新與建設) of the State Council;
- Governments of various countries attach great importance to new energy vehicles to replace traditional ones. Such an enormous market has provided a boost to the development of charging piles and chargers (both mobile and in-vehicle) with soaring consumption of Snap-in, a high-voltage and high-capacitance type of aluminum electrolytic capacitors;
- As for photovoltaic inverters with a capacity of 315V >5000Hrs\550V>5000Hrs, the Group seeks to ensure that such products will be free of maintenance demand over 15 to 30 years;
- To prevent explosion and fire, the Group has developed aluminum electrolytic capacitors with anti-explosion covers for high-voltage pin-type products;
- Throughout the year, the Group launched marketing campaigns to promote its SV series of mini low-capacitance SMD products for smart interconnected equipment;
- The bolt-type variable-frequency capacitors have passed the full-capacity life test under 105℃ 6000H conditions, and have been qualified by Japanese customer representatives;
- The Group has developed large solid-state capacitors with the specifications of 8*16, 10*16 and 10*20, to cater to the industry demand for high-power chargers, adaptors and power;
- The semi-solid (not in-vehicle) aluminum electrolytic capacitors have been verified by the customer test center; and
- The Group has started mass production of its small solid-state capacitors with the specifications of 5*4.2 and 6.3*4.2.

The technology sector will have the following focuses in 2018:

1. Large-scale machine interactions will take place with an aim to realizing machine collaboration, self-management of production lines, logistics and operating procedures, which require a great volume of transmission between devices. Applications cover expansive venues such as unmanned chemical plants, smart cities and electricity meters.

2. There will be ultra-high requirement on the reliability of undisrupted machine dialogue, i.e., instant communication between important devices. For instance, there can be no delay in the transmission of instructions for acceleration and deceleration for self-driving automobiles, cloud robots and drones.

3. Increased mobile broadband constitutes the biggest demand in respect of live media and entertainment, such as the requirement on speed and capacity from the networks for sharing photos shortly after they are taken, HD videos as well as augmented reality (AR)/virtual reality (VR) experience.

Artificial intelligence ("AI") will lead the development of the IoT, as the massive demand for AI arithmetic data and communications propels the edge computing network to take shape more quickly. In the meantime, the development of terminal applications including smart phones of Mainland Chinese brands and IoT-driven communication modules, and smart automobile applications are becoming more mature. Despite the lack of a "Killer Application" with explosive growth, it is well worth expecting the new demand brought by the increasingly mature market of various applications.

The Group will capitalize on the collective wisdom of its management team more effectively, leverage on its strengths and innovations, keep up with its achievements, and consolidate its business foundation and competitive edge. Meanwhile, the Group will also endeavor to become an international market supplier by combining the competitive edge of its operations in the People's Republic of China, Hong Kong, and Taiwan with a view to maximizing investment returns for the Company's shareholders as a whole.

**LIN Chin Tsun**
*Chairman*

Hong Kong, 30 August 2018

## Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2018 (the "Period") is as follows:

- Revenue increased by approximately 23.38% to approximately RMB566,755,000.
- Gross profit increased by approximately 41.95% to approximately RMB151,779,000.
- Profit for the Period attributable to owners of the Company amounted to approximately RMB19,111,000 (for the six months ended 30 June 2017: loss of RMB14,711,000).

During the Period under review, the Group's revenue was approximately RMB566,755,000, representing an increase of approximately 23.38% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Period were approximately RMB559,679,000, representing an increase of approximately 24.28% as compared to RMB450,326,000 in the corresponding period last year. The Group's year-on-year increase in sales came from better performance as a result of successive shipments of newly developed solid-state capacitors, high-voltage capacitors and charging piles. Sales of aluminum foils for the Period were approximately RMB7,076,000, representing a decrease of approximately 21.67% as compared to RMB9,033,000 in the corresponding period last year. Such decrease was mainly attributable to the slow recovery of economic climate in general and the excessive demand in the aluminum foils market where large capacitor manufacturers, in particular, secured the majority of aluminum foils, leaving a shortfall in aluminum foils supply for small capacitor manufacturers. In order to meet the internal production demand of the Group, the Group's aluminum foils produced during the Period were mainly for the internal production of capacitors. During the Period, the gross profit margin of the Group increased from approximately 23.28% for the corresponding period last year to approximately 26.78% for the Period.

## Business Review

In the first half of 2018, the integration and dialogue platform for cloud and edge computing, human-computer interaction, and partial solutions entered into the market. Gartner predicts that the top ten technologies in 2018 will encompass the following three aspects:

The first is artificial intelligence ("AI"). It embodies smart APP and smart analysis to assist users with their analytical capabilities.

The second is digitalization. Digitalization no longer refers to automation, but the initiative to help achieve the result.

The third is grid, with two layers of connotations. Grid represents numerous walls in between, requiring new technology to break through such hurdles. Grid also refers to multiple elements coming together and integrate into an organic whole, mainly represented by block chain and information security.

As the future looks bright in the four major industries of mobile devices, Internet of Things ("IoT"), automotive electronics and high-speed computing, global cloud industry are also booming, with the mushrooming of various innovative application services. Meanwhile, robust PMI figures of the manufacturing sectors in the US and the Eurozone are invariably backed by external demand. In addition, some manufacturers of aluminum foils are unable to supply an adequate amount of main raw materials for capacitors due to environmental protection requirements, which led to the increase in sales of the electronic parts and components than the previous year with higher unit prices.

### Manufacture and sale of aluminum foils

During the Period, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB7,076,000, representing a decrease of approximately 21.67% as compared to external sales of aluminum foils of approximately RMB9,033,000 in the corresponding period last year.

Increasingly stringent environmental regulations in Mainland China have restricted the production capacity of aluminum foils manufacturers, which has caused a continuous shortfall and higher production cost of aluminum foils. Meanwhile, the majority of production capacity is still dominated by large-scale capacitor manufacturers. In response to such industrial characteristics, the Group has assessed the market dynamics and considered potential factors before deciding to expand its production capacity as planned, to ensure a stable supply of aluminum foils for its capacitor plants and meet the demand of market customers. Accordingly, during the first half in 2018, the Group built 10 new production lines for high-pressure formed foils, all of which have commenced production to secure the stable internal supply for the Group and meet the demand from external markets.

Aluminum foils are the major raw material of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, it has completed key research & development ("R&D") projects and quality control techniques. Besides, the Group is actively exploring markets with high added value to prepare for future market changes. The Group will remain attentive to and address the future changes in the aluminum foils market with care.

Currently, the Group has completed the following key R&D projects and quality control techniques of aluminum foils:

- *High-speed production line for etched aluminum foils*
  In respect of the etching business, multi-level electrolytic etching has been adopted to develop a high-speed production line for etched aluminum foils. Further improvement has been made in relation to adjusting equipment and technology indicators, product quality and production stability.

- *Acid recycling and reuse*
  In respect of the etching business, 10 sets of sulphuric and nitric acid recycling equipment have been installed by batch, to recycle the used sulphuric and nitric acid overflown during the process of manufacturing and selling etched aluminum foils. This has effectively reduced acid consumption and sewage treatment during production.

During the Period, the Group has delivered the following environmental improvements in the production of aluminum foils:

- The energy-saving transformation for roasting furnaces has been completed, saving approximately 400kwh per production line on a daily basis;

- The plan for recycling reclaimed water has been confirmed and is expected to be put into practice in September 2018, which is estimated to save 300 tons of water per day; and

- To relieve pressure in sewage treatment, the Group has worked with third parties on phosphoric acid recycling and reuse, which is expected to save approximately 10% cost on phosphoric acid.

### Manufacture and sale of capacitors

In respect of aluminum electrolytic capacitors, the Group recorded external sales of approximately RMB559,679,000 for the Period, which accounted for approximately 98.75% of the Group's total external sales and represented an approximately 0.72% increase from approximately 98.03% of the Group's total external sales for the same period last year.

While the passive component industry has entered into a mild growth phase in relation to the global sales growth of smartphones, there is a considerable potential demand from other application markets or high-end application fields such as automobile, high-end smart home appliances, smart electricity meters, safety control systems and industrial control. As such, we are cautiously optimistic about the passive component industry for the years to come. Also, in response to the growing business opportunities in the application of AI, edge computing and internet, the Group focused its R&D for mass production of electrolytic capacitors primarily on high-end products such as variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications during the Period, with great results already achieved in addressing relevant demand. In the future, the Group will commit more efforts to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high voltage, high frequency and high temperature. The Group will also take steps to develop custom-made products that are catered to the front-end demand of the market and can be applied across different sectors, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

Currently, the Group has completed the following key R&D projects and quality control techniques of electrolytic capacitors:

- Upgraded all the equipment and improved the manufacturing process, online testing standard and core competitiveness of products;

- Launched the products with a capacity of 550V>5000Hrs to ensure such products free of maintenance demand for over 15 to 30 years, in view of the pressing global demand for clean energy and higher requirements on photovoltaic inverters in particular;

- Developed double-bottom aluminum cases and triple-belt design for Snap-in high-voltage products to further improve the anti-vibration performance and heat dissipation design of products, with better application in in-vehicle and mobile charging fields;

- Online surveillance of liquid-state high-voltage products and the aging production of charging cradles, with improved application of products in the new energy field;

- Fully developed in-vehicle capacitors featuring high stability and heat resistance in 150℃ environment, and introduced such capacitors into round guide pins;

- Improved the low-temperature characteristic of solid-state capacitors (-55℃), and passed the spike test of customers;

- Successfully developed PE 6.3V 220uF 6.3*4.2 Low ESR special oxidant for miniaturized solid-state capacitors; and

- Applied tin-bismuth alloy CP wires to semi-solid products, to reduce the temperature of reflow at the customer terminal and prevent secondary life damages to the capacitor caused by excessively high temperature.

## Liquidity and Financial Resources

### Cash flows

The Group's cash demand was primarily attributable to the acquisition of property, plant and equipment, the costs and expenses involved in operating activities, and repayment of bank loan interest and borrowings. During the Period, the Group obtained its cash resources from its operating activities and financing activities.

During the Period, the Group had a total net cash inflow of approximately RMB140,754,000 from operating, investing and financing activities before foreign exchange adjustment, details of which are set out below:

Net cash inflow from operating activities was approximately RMB49,811,000, which was mainly due to the profit before tax for the Period of approximately RMB36,418,000 together with the changes in the flow of funds as a result of the adjustments for finance costs and depreciation, etc., and the movements in inventories, receivables and payables, etc.

Net cash outflow from investing activities was approximately RMB45,210,000, which was mainly due to the payment of approximately RMB49,229,000 for the purchase of machinery and equipment.

Net cash inflow from financing activities was approximately RMB136,153,000, which was mainly due to borrowings of approximately RMB270,015,000 from banks, repayment of bank borrowings of approximately RMB131,159,000 and payment of interest from borrowings of approximately RMB2,702,000.

As at 30 June 2018, the Group had cash and cash equivalents of approximately RMB249,567,000 (31 December 2017: RMB108,446,000), which were mainly held in Renminbi and U.S. Dollars (31 December 2017: Renminbi, U.S. Dollars and Euro).

### Borrowings

As at 30 June 2018, the Group had bank and other borrowings of approximately RMB257,856,000 (31 December 2017: RMB115,784,000), which were mainly denominated in U.S. Dollars, New Taiwan Dollars, Japanese Yen and Euro (31 December 2017: U.S. Dollars, New Taiwan Dollars, Japanese Yen and Euro). Among such bank borrowings, approximately RMB206,821,000 (31 December 2017: RMB74,070,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank and other borrowings:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| Within one year | **244,749** | 115,784 |
| More than one year but not exceeding two years | **6,752** | – |
| More than two years but not exceeding five years | **6,355** | – |
| | **257,856** | 115,784 |

## Pledge of Assets

The following assets have been pledged as security for certain bank borrowings and bills payable of the Group:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| Bank deposits | **1,196** | 1,205 |
| Deposit in a financial institution | **1,986** | – |
| Land use rights | **11,336** | – |
| Property, plant and equipment | **79,843** | 10,864 |
| | **94,361** | 12,069 |

## Financial Ratios

As at 30 June 2018, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 32.59%, representing an increase of approximately 0.83% as compared to 31.76% as at 31 December 2017. The increase was mainly due to an increase in bank and other borrowings of approximately RMB142,072,000 and an increase in cash and cash equivalents of approximately RMB140,754,000.

Below is the turnover days of the inventories, trade and bills receivable, and trade and bills payable of the Group during the Period:

| | For the six months ended 30 June 2018 | 2017 |
|---|---|---|
| Inventory turnover | **73 days** | 81 days |
| Trade and bills receivable turnover | **129 days** | 136 days |
| Trade and bills payable turnover | **93 days** | 99 days |

Compared with the same period of last year, the Group's turnover days of inventories, trade and bills receivable and trade and bills payable decreased by about 8 days, 7 days and 6 days, respectively. The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve even more efficient use of its funds.

## Capital Commitments

As at 30 June 2018, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB8,129,000 (31 December 2017: RMB18,934,000).

## Material Proceedings

During the year ended 31 December 2011, a customer ("Customer") filed an arbitration claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited (豐賓電子工業股份有限公司) ("Capxon Taiwan") with the Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (approximately RMB84,448,000 (31 December 2017: RMB81,375,000)) allegedly suffered by the Customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (approximately RMB3,588,000 (31 December 2017: RMB3,458,000)) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award ("Arbitral Award") was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the Customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (approximately RMB145,152,000 (31 December 2017: RMB139,871,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (approximately RMB78,459,000 (31 December 2017: RMB75,605,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (approximately RMB56,356,000 (31 December 2017: RMB54,305,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (approximately RMB10,337,000 (31 December 2017: RMB9,961,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (approximately RMB1,412,000 (31 December 2017: RMB1,361,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the Arbitral Award. In January 2016, the Tokyo District Court issued its decision in relation to the Arbitral Award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the Arbitral Award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region ("HK Court") to enforce the Arbitral Award in Hong Kong. The HK Court granted an enforcement order to the Customer in October 2017 ("Enforcement Order") and subsequently a charging order nisi over Capxon Taiwan's shares in a subsidiary in November 2017 ("Charging Order"). Capxon Taiwan applied to the HK Court to oppose against the Charging Order in February 2018 and to set aside the Enforcement Order in March 2018. In May 2018, the HK Court dismissed Capxon Taiwan's application to set aside the Enforcement Order and adjourned the Charging Order proceedings to November 2018 for Capxon Taiwan and the Customer to file further evidence. In June 2018, the Customer served a statutory demand on Capxon Taiwan pursuant to section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32). As at the date of this report, there were no winding up petitions presented against Capxon Taiwan.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award ("Decision"). In April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind-up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. As at the date of this report, the wind-up procedures are still in progress. After the Decision was issued, certain property, plant and equipment of Capxon Taiwan with carrying amount of RMB10,692,000 as at 30 June 2018 are distrained by the Taiwan Shilin District Court. The relevant property, plant and equipment are still used by the Group. Capxon Taiwan is in the process of appealing the Decision.

The outcome of the Charging Order and the appeal to the Decision cannot be determined at this stage. Therefore, an aggregate amount of JPY3,438,397,733 (approximately RMB205,625,000) (31 December 2017: JPY3,366,180,618 (approximately RMB193,980,000)) was accrued and included in trade and other payables as at 30 June 2018 as a result of the Arbitral Award.

## Foreign Exchange Fluctuations

The Group's revenue from operations is principally denominated in U.S. Dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, U.S. Dollars and New Taiwan Dollars. As the revenue and expenses are denominated in various currencies, the exposure to exchange risks was mostly managed through natural hedges. However, where there is a relatively large fluctuation in the exchange rates of Renminbi and Japanese Yen, the Group will still be indirectly affected.

At present, Renminbi is not a freely convertible currency. The government of the People's Republic of China may adopt measures which could result in a material difference between the future and prevailing or historical exchange rates of Renminbi.

## Employment and Remuneration Policy

As at 30 June 2018, the Group had 2,327 employees in total. Salary, bonus and fringe benefits are determined with reference to the prevailing market terms, and the individual employee's performance, qualification and experience. Employees are the backbone of an enterprise. The Group highly values loyal and diligent employees, and provides its employees with on-the-job education and training as well as subsidies on travel and transportation expenses for home visits. In addition, the Group adopts non-discriminatory hiring and employment practices, and strives to provide a safe and healthy working environment. During the Period, staff costs (including directors' emoluments) amounted to approximately RMB116,026,000 (for the six months ended 30 June 2017: RMB98,865,000).

## Environmental Policies

The Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive passed by the European Union in 2003, which came into effect in July 2006, principally regulating the standards of raw materials and production processes used in electronic products. As far as the examination of the composition of raw materials and the overall production processes are concerned, the Group has installed the corresponding equipment and apparatuses to support quality control management. The Group has also introduced the ICP-OES spectrometer to conduct material analysis and testing, so as to ensure compliance with the requirements of "RoHS", SVHC (Substances of Very High Concern) and halogen-free regulations, thereby achieving a green production environment, shouldering environmental protection responsibilities, winning the trust of its customers and creating new opportunities for green businesses.

In addition, the Group utilises resources and reduces wastes in an effective way by adopting measures for resource recycling, using eco-friendly stationery and saving electricity.

## Future Strategies and Planning

Industry trends for the second half of 2018 include: 1) 5G mobile technology will unleash the demands for diverse applications; 2) the introduction of AI will accelerate the demand for edge computing and cloud-based data analysis; 3) block chain will be deployed for commercial purposes; 4) GAMING 3.0 is around the corner, with user experience as the core of development; and 5) digital transformation will accelerate, with micro-service architecture to play a dominant role.

Globally, the technology industry will continue its cross-border transformation. It will be the top agenda of most businesses to redefine their value amidst changes and turn crises into opportunities in 2018. Accordingly, the Group has set out the following objectives for corporate transformation:

- *Human resources:* Streamlining labor demand, and tackling higher labor cost of production lines and improving labor efficiency through education, training and more automation equipment.
- *Production equipment:* Installing more automation equipment, with trial production to take place.
- *Material costs:* Consolidating common materials to cut inventory backlog.
- *Material development:* Developing fundamental materials – coated high-proportion capacitance foils and high-voltage solid-state materials.
- *Verification and delivery:* Strengthening the application exchanges at the customer side to promptly understand the development dynamics of products, establishing state-of-the-art electronic application laboratories to simulate product application for end customers, and pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors and meet the demand.

► *Technical reforms:*

Currently, the Group expects to develop the following key technologies in relation to aluminum foils and electrolytic capacitors in 2018:

- In respect of the research and development of energy-saving technology for the production lines of ultra-high-voltage (above 700V) formed foils, the laboratory phase has been completed, which can save more than 15% of electricity. Currently, work is under way to install two ultra-high-voltage production lines powered by new technology.

- We will further optimize the production technology for special formed foil, reduce the leakage current ratio to a level similar to that of JCC products, and realize mass production. However, the existing technology applies two-stage production, which has relatively low production efficiency. We are installing a production line with a low leakage current ratio for manufacturing special formed foil, which is able to complete production in one stage and improve production efficiency.

- *Aluminum laminate electrolytic capacitors*

  The Group has completed the development of Aluminum Laminate 2.5–25V to cater to such application in IC smoothing circuits for consumption and commercial purposes, and has been tested qualified by major notebook manufacturers.

- *Semi-solid capacitors*

  We have completed the development of 16V-80V products and delivered their samples. In respect of production technology, we have completed the development of impregnation-based assembly and wiring machines. As for 6.3ϕ – 10ϕ, mass production for all series can be fully completed in 2018;

  In response to the rapidly growing demand for in-vehicle products, we have introduced a series of shockproof base plates in our development of semi-solid (V-chip) products to meet the market demands.

- *Solid-state capacitors*

  Given the shortage of raw materials and rising costs caused by environmental protection issues, we have completed the development of special polymer material. We will gradually expand its production and extend its application to 16-100V products.

In 2018, the Group aims to complete the development of the following materials of solid-state capacitors:

(i) Significantly reduce the costs of 6.3x4.2 heat-resistant tapes by conducting targeted improvement of such tapes;

(ii) Engage in development for lowering the ESR value and commence the independent production of eccentric high-conductivity guide pin.

- Develop aluminum cases with burst-proof sides for liquid-state capacitor product Snap-in, to meet the application of special structures in the market.

- Develop V-chip capacitors for a high voltage of 400V or 450V and a temperature of 105℃ to satisfy the TV market demand. For the input end of electric circuits, the DIP products can be replaced by high-voltage SMD products to lower the labour cost.

- Further optimize the formed foil production technology for specific electrolytic capacitors to our customers, reduce the leakage current ratio to a level similar to that of Japanese products, and realize mass production.

## Future Prospects

In 2018, there is no question that the evolution of technology has been ushered into an era of comprehensive intelligence functions. While AI has generated unlimited possibilities for a "smart" life, edge computing mainly addresses such issues as the computing workload of cloud-based platforms for the upper level, the communication and transmission expenses for the middle level, and the real-time control for the lower level of the IoT. This equips the lower-level control equipment or the middle-level gateway with certain computing function, which in turn enables the IoT system to act more quickly at a lower cost for building and operation. Furthermore, the introduction of AI will empower peripheral equipment with computing function and learning capability so that the entire system can acquire real intelligence through constant trial and error. Undoubtedly, when technology turns the world upside down, industries and human resources are bound to embrace the upgrade of this trend. The advent of AI also represents the necessity of transformation. The Group is also a member of the industry seeking opportunities of transformation.

Pursuing sustainable operations and sharing profit with shareholders of the Company have always been the goals of the Group. In the future, the Group will continue to focus on its existing industries and R&D innovation, strive for excellence, control costs effectively and enhance manufacturing efficiency, all in a bid to maintain its competitiveness in the industry. With our technological R&D and product innovation services, the Group will serve and maintain a stable relationship with its existing customers. The Group will also attempt to develop a production-marketing model that integrates different industries, proactively explore markets in Europe and America to meet mass production planning, as well as stabilizing the value and revenue from the manufacturing industry, in order to reward the Company's shareholders for their support with profits.

# Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

**TO THE BOARD OF DIRECTORS OF**
**CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED**
**凱普松國際電子有限公司**
*(incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the condensed consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 52, which comprises the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 August 2018

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the six months ended 30 June 2018*

| | NOTES | Six months ended 30 June 2018 RMB'000 (unaudited) | 2017 RMB'000 (unaudited) |
|---|---|---|---|
| Revenue | *3A* | **566,755** | 459,359 |
| Cost of sales | | **(414,976)** | (352,432) |
| Gross profit | | **151,779** | 106,927 |
| Other income | | **3,300** | 7,319 |
| Other gains and losses | | **(4,114)** | (23,312) |
| Reversal of (impairment losses) on financial assets, net | | **761** | (1,588) |
| Distribution and selling costs | | **(39,850)** | (33,111) |
| Administrative expenses | | **(45,378)** | (37,239) |
| Other expenses | | **(23,179)** | (22,068) |
| Interest on provision for damages | | **(4,199)** | (4,418) |
| Finance costs | | **(2,702)** | (748) |
| Profit (loss) before tax | | **36,418** | (8,238) |
| Income tax expense | *4* | **(18,060)** | (6,444) |
| Profit (loss) for the period | *5* | **18,358** | (14,682) |
| **Other comprehensive (expense) income:** | | | |
| **Item that may be subsequently reclassified to profit or loss:** | | | |
| Exchange differences arising on translation of foreign operations | | **(608)** | 6,314 |
| Total comprehensive income (expense) for the period | | **17,750** | (8,368) |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | **19,111** | (14,711) |
| Non-controlling interests | | **(753)** | 29 |
| | | **18,358** | (14,682) |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **18,322** | (7,823) |
| Non-controlling interests | | **(572)** | (545) |
| | | **17,750** | (8,368) |
| Earnings (loss) per share (RMB cents) | *7* | | |
| Basic | | **2.26** | (1.74) |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2018*

| | NOTES | **30 June 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | **468,499** | 447,276 |
| Land use rights | | **22,009** | 22,352 |
| Intangible assets | | **10** | 11 |
| Pledged deposit in a financial institution | | **1,986** | – |
| Deferred tax assets | | **223** | 267 |
| Deposits paid for acquisition of property, plant and equipment | | **15,999** | 15,307 |
| | | **508,726** | 485,213 |
| CURRENT ASSETS | | | |
| Inventories | | **174,511** | 160,142 |
| Land use rights | | **681** | 681 |
| Trade and other receivables | 9 | **458,730** | 452,203 |
| Tax recoverable | | **2,056** | 2,056 |
| Pledged bank deposits | | **1,196** | 1,205 |
| Bank balances and cash | | **249,567** | 108,446 |
| | | **886,741** | 724,733 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 & 15 | **488,339** | 462,318 |
| Contract liabilities | | **3,123** | – |
| Bank and other borrowings | 11 | **244,749** | 115,784 |
| Amounts due to related parties | 13 | **5,009** | 4,963 |
| Tax liabilities | | **14,668** | 17,849 |
| | | **755,888** | 600,914 |
| NET CURRENT ASSETS | | **130,853** | 123,819 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **639,579** | 609,032 |

| | NOTES | 30 June 2018 RMB'000 (unaudited) | 31 December 2017 RMB'000 (audited) |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings | *11* | **13,107** | – |
| Deferred income | | **750** | 750 |
| Deferred tax liabilities | | **8,129** | 3,648 |
| | | **21,986** | 4,398 |
| | | **617,593** | 604,634 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **82,244** | 82,244 |
| Share premium and reserves | | **534,285** | 520,754 |
| Equity attributable to owners of the Company | | **616,529** | 602,998 |
| Non-controlling interests | | **1,064** | 1,636 |
| | | **617,593** | 604,634 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2018*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 *(note i)* | Statutory reserves RMB'000 *(note ii)* | Translation reserve RMB'000 | Other reserve RMB'000 *(note iii)* | Retained profits (accumulated losses) RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2017 (audited) | 82,244 | 436,626 | (30,753) | 106,523 | (6,591) | 3,650 | 35,700 | 627,399 | 2,241 | 629,640 |
| (Loss) profit for the period | – | – | – | – | – | – | (14,711) | (14,711) | 29 | (14,682) |
| Other comprehensive income (expense) for the period | – | – | – | – | 6,888 | – | – | 6,888 | (574) | 6,314 |
| Total comprehensive income (expense) | – | – | – | – | 6,888 | – | (14,711) | (7,823) | (545) | (8,368) |
| Appropriation | – | – | – | 8,243 | – | – | (8,243) | – | – | – |
| At 30 June 2017 (unaudited) | 82,244 | 436,626 | (30,753) | 114,766 | 297 | 3,650 | 12,746 | 619,576 | 1,696 | 621,272 |
| At 1 January 2018 (audited) | **82,244** | **436,626** | **(30,753)** | **114,766** | **7,678** | **3,650** | **(11,213)** | **602,998** | **1,636** | **604,634** |
| Application of IFRS 9 *(Note 2)* | **-** | **-** | **-** | **-** | **-** | **-** | **(4,791)** | **(4,791)** | **-** | **(4,791)** |
| At 1 January 2018 (restated) | **82,244** | **436,626** | **(30,753)** | **114,766** | **7,678** | **3,650** | **(16,004)** | **598,207** | **1,636** | **599,843** |
| Profit (loss) for the period | **-** | **-** | **-** | **-** | **-** | **-** | **19,111** | **19,111** | **(753)** | **18,358** |
| Other comprehensive (expense) income for the period | **-** | **-** | **-** | **-** | **(789)** | **-** | **-** | **(789)** | **181** | **(608)** |
| Total comprehensive income (expense) | **-** | **-** | **-** | **-** | **(789)** | **-** | **19,111** | **18,322** | **(572)** | **17,750** |
| Appropriation | **-** | **-** | **-** | **5,960** | **-** | **-** | **(5,960)** | **-** | **-** | **-** |
| At 30 June 2018 (unaudited) | **82,244** | **436,626** | **(30,753)** | **120,726** | **6,889** | **3,650** | **(2,853)** | **616,529** | **1,064** | **617,593** |

*Notes:*

(i) The capital reserve represents the aggregate of the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's ordinary shares issued in exchange at the time of a group reorganisation prior to the listing of the Company's ordinary shares on The Stock Exchange of Hong Kong Limited.

(ii) Under the relevant regulations in the People's Republic of China (the "PRC"), certain subsidiaries of the Company which are established in the PRC are required to make appropriation to the statutory reserve fund at 10% of their profit after tax based on their statutory financial statements. The statutory reserve fund may only be used, upon approval by the relevant authorities, to offset accumulated losses or to increase the capital of those subsidiaries.

According to the laws and regulations of Taiwan, a subsidiary of the Company incorporated in Taiwan is required to set aside 10% of its statutory net income each year for legal reserve, until the reserve balance has reached the paid-in share capital amount.

(iii) Other reserve represents the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid on the acquisition or deemed acquisition of additional interests in subsidiaries which is accounted for as equity transaction.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Net cash from operating activities | **49,811** | 8,182 |
| Net cash used in investing activities | | |
| Purchase of property, plant and equipment | **(37,670)** | (19,636) |
| Deposits paid for acquisition of property, plant and equipment | **(11,559)** | (5,644) |
| Placement of pledged deposit in a financial institution | **(1,986)** | – |
| Placement of pledged bank deposits | **(1,196)** | (2,137) |
| Proceeds from disposal of property, plant and equipment | **5,500** | 281 |
| Release of pledged bank deposits | **1,205** | 2,424 |
| Other investing cash flows | **496** | 348 |
| | **(45,210)** | (24,364) |
| Net cash from (used in) financing activities | | |
| New bank and other borrowings raised | **270,015** | 101,489 |
| Repayment of bank and other borrowings | **(131,159)** | (108,707) |
| Interest paid | **(2,702)** | (748) |
| Repayment to related parties | **(1)** | (609) |
| | **136,153** | (8,575) |
| Net increase (decrease) in cash and cash equivalents | **140,754** | (24,757) |
| Cash and cash equivalents at 1 January | **108,446** | 123,362 |
| Effect of foreign exchange rate changes | **367** | 499 |
| Cash and cash equivalents at 30 June, represented by bank balances and cash | **249,567** | 99,104 |

*For the six months ended 30 June 2018*

## 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

## 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014–2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

## 2. Principal Accounting Policies *(continued)*

**Application of new and amendments to IFRSs** *(continued)*

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

### 2.1 Impacts and changes in accounting policies on application of IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue* ("IAS 18"), IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue at a point in time when the control of capacitors and aluminum foils are transferred to the customers at the designated locations. Warranty is provided to customers for the assuring that the product complies with agreed-upon specifications (i.e. assurance-type warranties). Transportation and other related activities that occur before the customers obtain control of the related good are considered as fulfilment activities.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

#### 2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

## 2. Principal Accounting Policies *(continued)*

### 2.1 Impacts and changes in accounting policies on application of IFRS 15 Revenue from Contracts with Customers *(continued)*

#### 2.1.1 Key changes in accounting policies resulting from application of IFRS 15 *(continued)*

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## 2. Principal Accounting Policies *(continued)*

### 2.1 Impacts and changes in accounting policies on application of IFRS 15 Revenue from Contracts with Customers *(continued)*

**2.1.2 Summary of effects arising from initial application of IFRS 15**

The Group has performed an assessment on the impact of the adoption of IFRS 15 and concluded that the revenue from manufacturing and sale of capacitors and aluminum foils are recognised at a point in time when the control of the products are transferred to the customers which is the same as the revenue recognition used under IAS 18. Accordingly, the application of IFRS 15 does not have material impact on the opening accumulated losses of the Group as at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Note | Carrying amounts previously reported at 31 December 2017 RMB'000 | Reclassification RMB'000 | Carrying amounts under IFRS 15 at 1 January 2018* RMB'000 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Trade and other payables | *(a)* | 462,318 | (1,842) | 460,476 |
| Contract liabilities | *(a)* | – | 1,842 | 1,842 |

* *The amounts in this column are before the adjustments from the application of IFRS 9.*

*Note:*

(a) As at 1 January 2018, advances from customers of RMB1,842,000 in respect of the contracts with customers previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

## 2. Principal Accounting Policies *(continued)*

### 2.1 Impacts and changes in accounting policies on application of IFRS 15 Revenue from Contracts with Customers *(continued)*

#### 2.1.2 Summary of effects arising from initial application of IFRS 15 *(continued)*

***Impact on the condensed consolidated statement of financial position***

| | As reported RMB'000 | Adjustment RMB'000 | Amounts without application of IFRS 15 RMB'000 |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade and other payables | 488,339 | 3,123 | 491,462 |
| Contract liabilities | 3,123 | (3,123) | – |

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9

***Classification and measurement of financial assets***

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

The directors of the Company reviewed and assessed the Group's financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the Group's financial assets and liabilities are continued to be measured at amortised cost upon adoption of IFRS 9, which is the same as the method of measurement used under IAS 39 except for impairment under ECL model for financial assets.

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

***Impairment under ECL model***

The Group assesses for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, pledged deposit in a financial institution, pledged bank deposits and bank balances and cash). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors and measured using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

***Impairment under ECL model*** *(continued)*

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

***Impairment under ECL model*** *(continued)*

*Significant increase in credit risk (continued)*

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed as below.

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

***Summary of effects arising from initial application of IFRS 9***

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | *Note* | **Trade receivables RMB'000** | **Other items at amortised cost (previously classified as loans and receivables) RMB'000** | **Accumulated losses RMB'000** |
|---|---|---|---|---|
| Closing balance at 31 December 2017 – IAS 39 | | 403,036 | 114,817 | (11,213) |
| Remeasurement – Impairment under ECL model | (a) | (4,791) | – | (4,791) |
| Opening balance at 1 January 2018 | | 398,245 | 114,817 | (16,004) |

*Note:*

(a) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including other receivables, pledged bank deposits, pledged deposit in a financial institution and bank balances, are assessed on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB4,791,000 relating to trade receivables has been recognised against accumulated losses. The additional loss allowance is charged against the allowance for doubtful debts.

## 2. Principal Accounting Policies *(continued)*

### 2.2 Impacts and changes in accounting policies on application of IFRS 9 Financial Instruments *(continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

***Summary of effects arising from initial application of IFRS 9*** *(continued)*

Loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

| | Trade receivables RMB'000 | Other receivables RMB'000 |
|---|---|---|
| At 31 December 2017 – IAS 39 | 18,188 | 694 |
| Amounts remeasured through opening accumulated losses | 4,791 | – |
| At 1 January 2018 | 22,979 | 694 |

### 2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item but the line items that were not affected by the changes have not been included.

| | 31 December 2017 RMB'000 (Audited) | IFRS 9 RMB'000 | IFRS 15 RMB'000 | 1 January 2018 RMB'000 (Restated) |
|---|---|---|---|---|
| Trade and other receivables | 452,203 | (4,791) | – | 447,412 |
| Trade and other payables | 462,318 | – | (1,842) | 460,476 |
| Contract liabilities | – | – | 1,842 | 1,842 |
| Accumulated losses | (11,213) | (4,791) | – | (16,004) |

## 3A. Revenue

### Disaggregation of revenue

**Geographical markets and product type information**

| | Six months ended 30 June 2018 | | |
|---|---|---|---|
| | Capacitors RMB'000 | Aluminum foils RMB'000 | Total RMB'000 |
| **Geographical markets** | | | |
| The PRC | **481,795** | **5,968** | **487,763** |
| Taiwan | **8,711** | **–** | **8,711** |
| Other Asian countries *(Note)* | **51,934** | **1,108** | **53,042** |
| Europe *(Note)* | **16,593** | **–** | **16,593** |
| America and Africa | **646** | **–** | **646** |
| Revenue from contracts with customers | **559,679** | **7,076** | **566,755** |

*Note:* The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, Germany and others. No further analysis by countries of these categories is presented because the revenue from each individual country is insignificant to the total revenue.

All revenue generated by the Group is recognised at a point in time.

## 3B. Segmental Information

Revenue represents the amounts received and receivable for goods sold, net of sales taxes, discounts and returns, for the period.

Information reported to the chief operating decision makers (i.e. the executive directors of the Company) for the purposes of resources allocation and assessment of segment performance focuses on types of products. All revenue generated by the Group is recognised at a point in time.

The Group's reportable and operating segments are as follows:

| | | |
|---|---|---|
| Capacitors | – | Manufacture and sale of capacitors |
| Aluminum foils | – | Manufacture and sale of aluminum foils |

## 3B. Segmental Information *(continued)*

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

**For the six months ended 30 June 2018**

| | Capacitors RMB'000 | Aluminum foils RMB'000 | Segment total RMB'000 | Eliminations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| External sales | **559,679** | **7,076** | **566,755** | **–** | **566,755** |
| Inter-segment sales | **–** | **98,633** | **98,633** | **(98,633)** | **–** |
| Segment revenue | **559,679** | **105,709** | **665,388** | **(98,633)** | **566,755** |
| Segment profit | **45,080** | **16,010** | **61,090** | **(3,678)** | **57,412** |
| Interest income | | | | | **496** |
| Unallocated corporate expenses | | | | | **(5,698)** |
| Finance costs | | | | | **(2,702)** |
| Interest on provision for damages | | | | | **(4,199)** |
| Foreign exchange loss arising from retranslation of provision for damages | | | | | **(8,891)** |
| Profit before tax | | | | | **36,418** |

## 3B. Segmental Information *(continued)*

### Segment revenue and results *(continued)*

For the six months ended 30 June 2017

| | Capacitors RMB'000 | Aluminum foils RMB'000 | Segment total RMB'000 | Eliminations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| External sales | 450,326 | 9,033 | 459,359 | – | 459,359 |
| Inter-segment sales | – | 45,194 | 45,194 | (45,194) | – |
| Segment revenue | 450,326 | 54,227 | 504,553 | (45,194) | 459,359 |
| Segment profit (loss) | 25,955 | (28,588) | (2,633) | 351 | (2,282) |
| Interest income | | | | | 348 |
| Unallocated corporate expenses | | | | | (4,478) |
| Finance costs | | | | | (748) |
| Interest on provision for damages | | | | | (4,418) |
| Foreign exchange gain arising from retranslation of provision for damages | | | | | 3,340 |
| Loss before tax | | | | | (8,238) |

Segment profit (loss) represents the profit (loss) from each segment without allocation of central administration costs, interest income, finance costs, interest on provision for damages and foreign exchange gain (loss) arising on retranslation of provision for damages. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and assessment segment performance.

Since there is no material change on the assets and liabilities of the Group's reportable segments form the amounts disclosed in that financial statements for the year ended 31 December 2017 for performance assessment and resource allocation purposes, the Group has not included total assets and total liabilities information as part of segmental information.

## 4. Income Tax Expense

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Current tax | | |
| – PRC Enterprise Income Tax | **5,273** | 4,663 |
| – Taiwan Corporate Income Tax | **1,284** | 1,317 |
| PRC dividend withholding tax *(Note)* | **7,426** | – |
| | **13,983** | 5,980 |
| Deferred tax | **4,077** | 464 |
| | **18,060** | 6,444 |

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, except for Capxon Electronic (Shenzhen) Co., Ltd. ("Capxon Shenzhen"), a subsidiary of the Company, the tax rate of the Group's major subsidiaries established in the PRC is 25%.

In March 2018, Capxon Shenzhen was approved for 1 year as an enterprise that satisfied the condition as a high technology development enterprise and was subject to a preferential tax rate of 15% in 2017. The directors of the Company consider that Capxon Shenzhen is able to renew the high technology development enterprise certificate for the preferential tax rate of 15% for 2018.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

*Note:* During the six months ended 30 June 2018, Capxon Shenzhen distributed a dividend to its immediate holding companies and, accordingly, PRC dividend withholding tax amounting to RMB7,426,000 has been recognised. The directors of the Company consider that Capxon Shenzhen will continue to distribute dividend in the foreseeable future and, accordingly, deferred tax liabilities on the undistributable profits of Capxon Shenzhen has been recognised.

## 5. Profit (Loss) for the Period

Profit (loss) for the period has been arrived at after charging (crediting):

| | Six months ended 30 June 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | | |
| – capitalised in inventories | **18,213** | 18,858 |
| – recognised in administrative expenses | **772** | 1,373 |
| – recognised in other expenses *(note 1)* | **1,671** | 5,254 |
| Amortisation of land use rights | **343** | 517 |
| Amortisation of intangible assets | **1** | 108 |
| Total depreciation and amortisation | **21,000** | 26,110 |
| Loss on disposal/written-off of property, plant and equipment | **1,069** | 1,125 |
| Impairment loss on deposits paid for acquisition of property, plant and equipment *(note 2)* | **–** | 7,762 |
| Net foreign exchange losses | **3,045** | 14,425 |
| Other gains and losses | **4,114** | 23,312 |
| (Reversal of) impairment loss on trade receivables | **(1,039)** | 1,588 |
| Impairment loss on other receivables | **278** | – |
| Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB7,168,000 (six months ended 30 June 2017: of RMB4,568,000) *(note 3)*) | **414,976** | 352,432 |
| Research and development costs (included in other expenses) | **18,887** | 14,221 |
| Interest income | **(496)** | (348) |

*Notes:*

(1) The amount represents the depreciation expenses of property, plant and equipment incurred by a subsidiary of the Company which has ceased operation during the six months ended 30 June 2017. The relevant equipment have been relocated to other production plants of the Group during the current interim period.

(2) During the six months ended 30 June 2017, the board of directors of the Company reassessed the recoverability of the relevant deposits aged over 1 year and considered that the recoverability is low after negotiation with the counterparty and considering the probability of settlement.

(3) The reversal of allowance for inventories was mainly resulted from the utilisation of the inventories of which allowance had previously been provided.

## 6. Dividends

No dividends were paid, declared or proposed during both periods. The board of directors of the Company has determined that no dividend will be paid in respect of the interim period.

## 7. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share attributable to the owners of the Company for the six months ended 30 June 2018 is based on the profit for the period attributable to owners of the Company of RMB19,111,000 (six months ended 30 June 2017: loss of RMB14,711,000) and on 844,559,841 ordinary shares in issue.

There were no potential ordinary shares outstanding during the six months ended 30 June 2018 and 2017.

## 8. Movements in Property, Plant and Equipment

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB6,569,000 (six months ended 30 June 2017: RMB1,406,000) for cash proceeds of RMB5,500,000 (six months ended 30 June 2017: RMB281,000).

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of RMB48,537,000 (six months ended 30 June 2017: RMB22,839,000) for the purposes of expanding the Group's business.

Included in property, plant and equipment are buildings in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of RMB5,320,000 (31 December 2017: RMB5,542,000) for which the Group is in the process of obtaining the building ownership certificates.

As at 30 June 2018, certain property, plant and equipment of the Group, with a carrying value of RMB10,692,000 (31 December 2017: nil), are distrained by the Taiwan Shilin District Court for enforcing the Arbitral Award (as defined in note 15). The relevant property, plant and equipment are still used by the Group as at 30 June 2018. Details are disclosed in note 15.

## 9. Trade and Other Receivables

The Group generally allows its trade customers a credit period of 30 days to 180 days. The following is an aged analysis of the trade receivables net of allowance for doubtful debts presented based on the invoice dates as at the end of the reporting period, which approximated to respective revenue recognition dates:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| 0–60 days | **211,006** | 220,953 |
| 61–90 days | **101,370** | 81,700 |
| 91–180 days | **90,276** | 96,059 |
| 181–270 days | **4,541** | 4,314 |
| Over 360 days | **–** | 10 |
| | **407,193** | 403,036 |

Included in trade receivables are bills amounting to RMB20,575,000 (31 December 2017: RMB10,368,000) for settlement of trade receivables.

## 10. Trade and Other Payables

The credit period on purchases of goods is normally 30 to 60 days. The following is an aged analysis of trade and bills payables based on the invoice dates as at the end of the reporting period:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| 0–60 days | **135,510** | 131,682 |
| 61–90 days | **40,389** | 28,020 |
| 91–180 days | **25,259** | 23,945 |
| 181–270 days | **1,055** | 2,601 |
| 271–360 days | **266** | 2,185 |
| Over 360 days | **17,402** | 17,649 |
| | **219,881** | 206,082 |

## 11. Bank and Other Borrowings

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| Bank and other borrowings | **257,856** | 115,784 |
| Secured | **215,331** | 41,714 |
| Unsecured | **42,525** | 74,070 |
| | **257,856** | 115,784 |
| The carrying amounts of borrowings are repayable: | | |
| Within one year | **244,749** | 115,784 |
| More than one year but not exceeding two years | **6,752** | – |
| More than two years but not exceeding five years | **6,355** | – |
| | **257,856** | 115,784 |
| Less: Amounts due within one year shown under current liabilities | **(244,749)** | (115,784) |
| Amount shown under non-current liabilities | **13,107** | – |

During the current interim period, the Group obtained new bank and other borrowings of RMB270,015,000 (six months ended 30 June 2017: RMB101,489,000). The new bank and other borrowings consist of fixed-rate borrowings with effective interest rates ranging from 1.11% to 3.78% per annum and variable-rate borrowings with effective interest rates ranging from 1.24% to 5.10% per annum.

## 12. Capital Commitments

At the end of the reporting period, the Group had the following capital commitments:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | **8,129** | 18,934 |

## 13. Related Party Disclosures

### (a) Related party balances

| Name of related party | Relationship | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|---|
| **Amounts due to related parties** | | | |
| Lin Chin Tsun | Director | **3,510** | 3,464 |
| Lin I Chu | Director | **1,499** | 1,499 |
| | | **5,009** | 4,963 |

The amounts due to related parties are interest-free, unsecured and repayable on demand.

### (b) Provision of guarantees and security by the Company's directors and shareholders

Certain directors and shareholders of the Company have provided guarantees to banks to support facilities granted by those banks to the Group:

| | **30 June 2018 RMB'000** | 31 December 2017 RMB'000 |
|---|---|---|
| Guarantees provided by: | | |
| Lin Chin Tsun *(Note)* | **226,681** | 74,070 |
| Lin Chin Tsun and Chou Chiu Yueh *(Note)* | **21,345** | 17,455 |
| Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)* | **9,831** | 24,259 |
| | **257,857** | 115,784 |

The expiry dates of the above guarantees fall within the period from July 2018 to June 2021 (31 December 2017: January 2018 to December 2018).

As at 30 June 2018, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu and Ms. Lin I Chu *(Note)* pledged their properties to certain banks to secure banking facilities of NTD180,000,000 (approximately RMB39,094,000) (31 December 2017: NTD200,000,000 (approximately RMB43,786,000)) granted to the Group.

*Note:* Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu is the son and Ms. Lin I Chu is the daughter of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh. All of them are directors and shareholders of the Company.

## 13. Related Party Disclosures *(continued)*

### (c) Compensation of key management personnel

The remuneration of directors and other members of key management during both periods is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Short term benefits | **4,468** | 4,794 |
| Post-employment benefits | **82** | 86 |
| | **4,550** | 4,880 |

The remuneration of directors and key executives is determined by the Company's remuneration committee/board of directors having regard to the performance of individuals and market trends.

## 14. Pledge of Assets

At the end of the reporting period, the following assets of the Group were pledged to banks for banking facilities:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **79,843** | 10,864 |
| Land use rights | **11,336** | – |
| Bank deposits | **1,196** | 1,205 |
| Deposit in a financial institution | **1,986** | – |
| | **94,361** | 12,069 |

## 15. Material Proceedings

During the year ended 31 December 2011, a customer ("Customer") filed an arbitration claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited (豐賓電子工業股份有限公司) ("Capxon Taiwan") with the Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (approximately RMB84,448,000 (31 December 2017: RMB81,375,000)) allegedly suffered by the Customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (approximately RMB3,588,000 (31 December 2017: RMB3,458,000)) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award ("Arbitral Award") was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the Customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (approximately RMB145,152,000 (31 December 2017: RMB139,871,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (approximately RMB78,459,000 (31 December 2017: RMB75,605,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (approximately RMB56,356,000 (31 December 2017: RMB54,305,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (approximately RMB10,337,000 (31 December 2017: RMB9,961,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (approximately RMB1,412,000 (31 December 2017: RMB1,361,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the Arbitral Award. In January 2016, the Tokyo District Court issued its decision in relation to the Arbitral Award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the Arbitral Award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

## 15. Material Proceedings *(continued)*

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region ("HK Court") to enforce the Arbitral Award in Hong Kong. The HK Court granted an enforcement order in October 2017 ("Enforcement Order") and subsequently a charging order nisi over Capxon Taiwan's shares in a subsidiary in November 2017 ("Charging Order"). Capxon Taiwan applied to the HK Court to oppose against the Charging Order in February 2018 and to set aside the Enforcement Order in March 2018. In May 2018, the HK Court dismissed Capxon Taiwan's application to set aside the Enforcement Order and adjourned the Charging Order proceedings to November 2018 for Capxon Taiwan and the Customer to file further evidence. In June 2018, the Customer served a statutory demand on Capxon Taiwan pursuant to section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32). As at the date of this report, there were no winding up petitions presented against Capxon Taiwan.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award ("Decision"). In April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind-up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. As at the date of this report, the wind-up procedures are still in progress. After the Decision was issued, certain property, plant and equipment of Capxon Taiwan with carrying amount of RMB10,692,000 as at 30 June 2018 are distrained by the Taiwan Shilin District Court. The relevant property, plant and equipment are still used by the Group. Capxon Taiwan is in the process of appealing the Decision.

The outcome of the Charging Order and the appeal to the Decision cannot be determined at this stage. Therefore, an aggregate amount of JPY3,438,397,733 (approximately RMB205,625,000) (31 December 2017: JPY3,366,180,618 (approximately RMB193,980,000)) was accrued and included in trade and other payables as at 30 June 2018 as a result of the Arbitral Award.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests or short positions of the Company's directors (the "Directors") and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

| Name of Director/ chief executive | Capacity and nature of interests | Number of issued shares held | Total interest (a) and approximate percentage of shareholding (b)[1] (a) | (b) |
|---|---|---|---|---|
| Mr. LIN Chin Tsun | Beneficial owner | 101,657,378 | 564,973,947 | 66.90 |
| | Interest of controlled corporations | 395,360,783[2] | | |
| | Interest of spouse | 67,955,786 | | |
| Ms. CHOU Chiu Yueh | Beneficial owner | 67,955,786 | 564,973,947 | 66.90 |
| | Interest of controlled corporations | 395,360,783[2] | | |
| | Interest of spouse | 101,657,378 | | |
| Mr. LIN Yuan Yu | Beneficial owner | 13,161,622 | 394,675,621 | 46.73 |
| | Interest of controlled corporation | 374,585,006[3] | | |
| | Interest of spouse | 6,928,993 | | |
| Ms. LIN I Chu | Beneficial owner | 9,429,777 | 384,014,783 | 45.47 |
| | Interest of controlled corporation | 374,585,006[3] | | |
| Ms. LIU Fang Chun | Beneficial owner | 6,928,993 | 394,675,621 | 46.73 |
| | Interest of spouse | 387,746,628 | | |
| Ms. HU Szu Jung, Carol | Beneficial owner | 243,991 | 243,991 | 0.03 |

*Notes:*

(1) This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2018.

(2) Value Management Holding Limited ("VMHL"), of which Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are directors, owns 374,585,006 shares. Pursuant to the SFO, VMHL is deemed to be controlled by Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh who accordingly are taken to be interested in the 374,585,006 shares held by VMHL.

In accordance with the SFO, each of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh is deemed to be interested in 20,775,777 shares held by Hung Yu Investment Co., Ltd., a company controlled by both of them.

(3) Each of Mr. Lin Yuan Yu and Ms. Lin I Chu is deemed to be interested in the 374,585,006 shares held by VMHL under the SFO.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executives of the Company and their associates had any personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## Substantial Shareholders

Other than interests disclosed in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, as at 30 June 2018, according to the register of interests kept by the Company under section 336 of the SFO, the following entity had interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholder | Capacity and nature of interests | Number of issued shares held directly | Approximate percentage of shareholding* |
|---|---|---|---|
| VMHL | Beneficial owner | 374,585,006 | 44.35 |

* *This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2018.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2018, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## Arrangements to Acquire Shares and/or Debentures

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and no Directors or chief executives or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of the Company nor exercised any such right.

## Dividends

The board of Directors (the "Board") has resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct regarding Directors' securities transactions. Upon specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

## Corporate Governance

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Tung Chin Chuan, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 31 May 2018 due to personal reason.

(ii) Code provision F.1.3 of the CG Code stipulates that the company secretary should report to the board chairman and/or chief executive. The company secretary of the Company reported to the chief financial officer instead of the board chairman and/or the chief executive. As the company secretary is also involved in handling the financial reporting matters of the Group, it simplifies the reporting process if she reports to the chief financial officer, who in turn reports to the board chairman on the Group's financial affairs and corporate governance.

## Disclosure of Information of Directors

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of the Directors are as follows:

Since 5 June 2018, Mr. Hsieh King-Hu, Miles ceased to act as the independent director of CX Technology Corporation (Stock code: 2415) whose shares are listed on the Taiwan Stock Exchange Corporation.

In June 2018, Mr. Tung Chin Chuan was appointed as an independent director of Lung Hwa Electronics Co., Ltd. (Stock code: 2424) whose shares are listed on the Taiwan Stock Exchange Corporation.

## Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

## Review of Financial Statements

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been reviewed by the audit committee and the external auditor of the Company.

On behalf of the Board
**LIN Chin Tsun**
*Chairman*

Hong Kong, 30 August 2018